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MACROECONOMIC POLICY QUESTIONS: EXTERNAL DEBT CRISIS AND DEVELOPMENT

Letter dated 27 October 1995 from the Chargé d'affaires a.i. of the Permanent Mission of Yugoslavia to the United Nations addressed to the Secretary-General

I have the honour to transmit herewith the position of the Federal Republic of Yugoslavia on external debt crisis and development, dated 18 October 1995.

I should be grateful if you would have the present letter and its annex circulated as a document of the General Assembly under agenda item 94 (c).

(Signed) Vladislav JOVANOVIC
Ambassador
Chargé d'affaires a.i.

95-32658 (E) 011195

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Annex

The external debt crisis of the developing countries, which emerged at the beginning of the 1980s was thrown into even sharper relief at the beginning of the 1990s, with the result that about 60 debtor countries are over 20 per cent in arrears in payment of the outstanding debt, one half of them is over 50 per cent and one quarter over 90 per cent in arrears.

Compared with that of the debtor countries, the situation of the Federal Republic of Yugoslavia is even more complex and difficult owing to United Nations sanctions, the armed secession of some republics from the former Socialist Federal Republic of Yugoslavia and the combat operations in its immediate vicinity. Besides, foreign markets have been lost, the domestic market has contracted, capital and other foreign financial transactions have been interrupted, the economy has been decapitalized and the country is devoid of resources for simple reproduction, let alone for development investment. This has brought about a drastic fall in social product and enormous damages (direct damage in the 1991-1995 period amounts to about US$ 50 billion, but with the losses from the lost development, the overall damage to the economy is in the region of almost US$ 150 billion).

This difficult material situation of the Federal Republic of Yugoslavia is not relieved at all by Yugoslavia's debt to foreign creditors, which amounts to over US$ 9 billion. The said amounts are in fact Yugoslav commitments to international financial organizations, creditor Governments and commercial banks. Moreover, foreign commitments of Yugoslav banks amount to about US$ 4 billion, so that the overall Yugoslav external debt, not including interest, is in the range of US$ 13 billion.

The 1994 social product of the Federal Republic of Yugoslavia amounted to US$ 12.6 billion, which is less than its external debt. This ranks Yugoslavia among the most heavily indebted countries of the world.

Bearing in mind the aforementioned data, it is very obvious that the customary conditions of external debt regulation, i.e. of re-emergence on the international capital market, cannot be applied to the Federal Republic of Yugoslavia.

Preliminary assessments indicate that, following the lifting of sanctions, the Federal Republic of Yugoslavia needs a "breather" of a number of years in which arrangements would be made with all creditor groups that would ensure a positive net inflow of capital already in the first years after the sanctions have been lifted. This would provide for the restoration of a sustainable and non-inflationary growth of social product, in which way Yugoslavia would be enabled to resume, after a number of years, regular service of its external debt and to contract new loans under standard conditions, which is in the interest of both Yugoslavia and its creditors.

In order to achieve this, it is necessary that, in addition to the lifting of sanctions, the Federal Republic of Yugoslavia be ensured the following:

(a) Longer grace and repayment periods;

(b) A higher percentage of official bilateral and commercial debt write-offs than currently granted;

(c) Interest under concessional terms, reprogramming and write-off of part of the interest accrued on the debts from private and public bilateral sources (creditor Governments);

(d) Possibilities for concluding innovative arrangements, primarily with the International Monetary Fund and the World Bank that would ensure, in the first several years after the lifting of sanctions, a positive net inflow of capital in Yugoslavia's relations with these international financial organizations.

It is necessary to ensure these conditions in order to enable the Federal Republic of Yugoslavia to allay the devastating consequences of the sanctions and reintegrate itself into the international economic community, i.e. to restore interrupted economic relations with its traditional foreign partners.

The key role in the realization of this conception of the consolidation of the external debt of the Federal Republic of Yugoslavia should be played by the International Monetary Fund in cooperation with the World Bank, so that it is necessary for these reasons to reactivate as soon as possible Yugoslavia's membership in these institutions and resume cooperation with them right after the lifting of sanctions. The said international financial organizations should display maximum flexibility and readiness to resume an early dialogue in order to work out a joint strategy to achieve the said goals.